

BRANCH INTERMEDIATE SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2007

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INDEPENDENT AUDITOR'S REPORT

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

August 28, 2007

We have audited the accompanying financial statements of the governmental activities, and each major fund, and the aggregate remaining fund information of the Branch Intermediate School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Branch Intermediate School District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund and the aggregate remaining fund information of the Branch Intermediate School District as of June 30, 2007 and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

August 28, 2007

In accordance with Governmental Auditing Standards, we have also issued our report dated August 28, 2007 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 39 through 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Combining Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Branch Intermediate School District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Rumsey & Watkins P.C.", is positioned above the firm's name.

RUMSEY & WATKINS, P.C.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Branch Intermediate School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2007.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Information comparing the recently completed fiscal year with the previous fiscal year, is included in accordance with the requirements of GASB Statement No. 34.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Branch Intermediate School District financially as a whole. The Governmental Activities Financial Statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The Governmental Funds financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the Governmental Activities Financial Statements by providing information about the District's most significant (major) funds – the General Fund, Vocational Education Fund, Vocational Education Capital Projects Fund, and Special Education Fund. The remaining statement, the Statement of Fiduciary Net Assets presents financial information about activities for which the District acts solely as an agent for the benefit of students.

Organization of the Report

Management's Discussion & Analysis (MD&A) – Required Supplemental Information

Basic Financial Statements

 District-Wide Financial Statements

 Statement of Net Assets

 Statement of Activities

 Fund Financial Statements

Notes to the Financial Statements

Required Supplemental Information – Budgetary Information for Major Funds

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Reporting the District as a Whole - Government-Wide Financial Statements

One of the most important questions asked about the District is, "Is the District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets, the difference between assets and liabilities, as reported in the Statement of Net Assets, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, Branch Intermediate School District's goal is to provide services to our students and constituent local school districts, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided to students and services provided to the constituent local school districts to assess the overall health of the District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, operations and maintenance, transportation, and community services. Property taxes, state school aid, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds – Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant (major) funds, not the District as a whole. Some funds are required to be established by State law. However, the District may establish other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the District use the following accounting approach:

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Governmental funds – All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental funds information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation, included in this annual report.

The District as Trustee - Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. The following provides a summary of the District's net assets as of June 30, 2007 and 2006:

	Net Assets	
	Governmental Activities	
	June 30,	
	2007	2006
Current and other assets	\$10,993,549	\$9,186,560
Capital assets	5,156,927	5,040,317
Total assets	16,150,476	14,226,877
Current and other liabilities	2,518,038	1,747,532
Long-term liabilities	580,353	575,986
Total liabilities	3,098,391	2,323,518
Net assets		
Invested in capital assets, net of related debt	4,830,834	4,714,224
Restricted	913,062	314,291
Unrestricted	7,308,189	6,874,844
Total net assets	\$ 13,052,085	\$ 11,903,359

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The District's net assets at June 30, 2007 and 2006 amounted to \$13,052,085 and \$11,903,359, respectively. Of this amount, \$7,308,189 and \$6,874,844 was unrestricted for 2007 and 2006, respectively. Restricted and designated net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. At June 30, 2007 and 2006, the District had designated net assets in the amount of \$913,062 and \$314,291, respectively. Our analysis above focuses on the net assets and change in net assets of the District's governmental activities.

The unrestricted net assets of governmental activities for 2007 and 2006, represent the accumulated results of all past years' operations, which means that if the District had to pay off all of the bills at June 30, 2007 including all of our non-capital liabilities (compensated absences for example), the District would have \$7,308,189 left. The increase in unrestricted net assets of \$433,345 from 2006 to 2007 shows an improvement in the financial condition of the District. Management's efforts to closely monitor expenditures and adhere strictly to the budget resulted in this increase in unrestricted net assets. Diligence to these tasks needs to continue in order to maintain unrestricted net assets that are adequate to meet the operational requirements of the district.

The results of operations for the District as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal years 2005-06 and 2006-07.

	June 30,	
Revenues	2007	2006
Program revenues		
Charges for services	\$ 1,155,745	\$ 1,055,669
Operating grants and contributions	4,516,328	4,532,647
General revenues		
Property taxes	8,863,744	8,485,781
State aid not restricted for specific purposes	4,140,549	4,232,353
Interest and investment earnings	331,872	220,789
Other general revenues	28,789	4,150
Total revenues	<u>19,037,027</u>	<u>18,531,389</u>
Functions/Program Expenses		
Instruction	9,103,620	9,214,119
Support services	7,086,529	6,479,365
Community services	1,514,198	1,591,851
Other school districts	-	68,614
Interest on Durant bonds	-	81,452
Depreciation unallocated	183,954	168,372
Total expenses	<u>17,888,301</u>	<u>17,603,773</u>
Increase in net assets	<u><u>\$ 1,148,726</u></u>	<u><u>\$ 927,616</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

As reported in the Statement of Activities, the cost of all of our governmental activities was \$17,888,301 and \$17,603,773 for 2007 and 2006, respectively. Comparison of the two years shows that the cost of governmental activities was increased by \$284,528. A portion of the costs of governmental activities, \$1,155,745 for 2007 and \$1,055,669 for 2006, was paid by those who benefited from the programs. Other governments and organizations subsidized certain programs with grants and contributions in the amount of \$4,516,328 in 2007 and \$4,532,647 in 2006. For 2007, \$12,216,228 of the cost (\$17,888,301 - \$1,155,745 - \$4,516,328 = \$12,216,228) remained to be financed by general revenues. The cost to be financed by general revenues increased by \$200,771 for 2007 since \$12,015,457 of the cost (\$17,603,773 - \$1,055,669 - \$4,532,647 = \$12,015,457) remained to be financed by general revenues in 2006. The District paid for the remaining "public benefit" portion of our governmental activities in 2007 with \$8,863,744 (\$8,485,781 in 2006) in property taxes, \$4,140,549 (\$4,232,353 in 2006) in state aid that was not restricted, and with our other revenues of \$360,661 (\$224,939 in 2006), including interest on investment earnings.

In the table below, we have presented the cost of each of the District's major functions - instruction, support services, community services, other school districts, interest on Durant bonds, and unallocated depreciation, as well as each program's net cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the district's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	June 30, 2007		June 30, 2006	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,103,620	\$ 7,207,056	\$ 9,214,119	\$ 7,191,267
Support services	7,086,529	4,883,005	6,479,365	4,771,793
Community services	1,514,198	(57,787)	1,591,851	(2,385)
Other School districts	-	-	68,614	68,614
Interest on Durant bonds	-	-	81,452	(182,204)
Depreciation unallocated	183,954	183,954	168,372	168,372
Total	<u>\$ 17,888,301</u>	<u>\$ 12,216,228</u>	<u>\$ 17,603,773</u>	<u>\$ 12,015,457</u>

The District originally projected a minimal change in net assets. Total net assets, however, actually increased by \$1,148,726. In the vocational education fund, actual revenues were \$157,232 more than anticipated in the original budget, and the expenditures were \$452,636 less than anticipated in the original budget. However, outgoing transfers to other District funds in the Vocational Education Fund were \$717,613 more than the projection in the original budget. The Special Education Fund also contributed to the increase in net assets because although actual revenues were only \$31,241 more than originally projected, the actual expenditures were \$726,313 less than the original budget.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

In the General Fund actual revenue was \$233,180 more than the amount projected in the original budget, and the actual expenditures were \$249,982 more than the original budget, mainly due to the receipt of a state grant that was not anticipated when the original budget was adopted. Capital assets, net of debt, increased by \$116,610.

The District's Funds

As we noted earlier, the Branch Intermediate School District uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the District is being accountable for the resources taxpayers and others provide to it but may also give you more insight into the Branch Intermediate School District's overall financial health.

As the District completed this year; our governmental funds reported a combined fund balance of \$8,475,511, which is an increase of \$1,036,483 from last year. The primary reasons for these increases are:

Our General Fund is primarily grant funded. Therefore, typically the general fund does not have as much impact on the combined fund balance as some of the other funds do. The general fund includes our early education programs like Head Start, Michigan School Readiness, and the Family Success Program. A new state grant, My Dream Explorer, for which the district acted as fiscal agent for the Michigan Virtual University, was added during the year. Also, cooperative programming run for the benefit of our local constituent school districts is included in the general fund. These programs include: Branch County summer school, cooperative computer technician services, talent development programming, and others. The general fund had an increase in fund balance of \$63,700. This is \$54,147 more than projected in the original budget. The District continues to require most early education program expenditures to be completely covered with grant revenue. Generally early education programs do not impact the fund balance. Therefore, the non-grant revenue and the services funded outside of grants in the general fund provided the increase in the fund balance.

Our Vocational Education Fund had a \$114,228 decline in its fund balance, mainly due to transfers into the Vocational Education Capital Projects Fund. This decrease in fund balance is \$107,024 greater than the decline of \$7,204 projected in the original budget. The \$157,232 increase in revenues over the original budget, along with a decision not to fill some staff positions, and a conservative approach to discretionary spending, in areas such as supplies, travel, purchased services, and capital outlay had a positive impact on the fund balance. These factors allowed the board of education to increase the transfers to the Vocational Education Capital Projects by \$715,000 more than was planned in the original budget. The increased transfer provided funding for a major renovation of the Branch Area Careers Center in the summer of 2007.

In our Special Education Fund, the largest gain in fund balance, \$488,240 was achieved. Actual revenue exceeded the projection in the original budget by only \$31,241. However, the fact that actual expenditures were \$726,313 less than originally budgeted allowed for an increase in the fund balance.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Health insurance costs did not increase as much as expected. Also, as in the Vocational Education Fund, a conservative approach to discretionary spending, in areas such as supplies, travel, purchased services, and capital outlay, not only kept expenditures within budgeted amounts, but in some situations left unexpended balances that significantly contributed to the net increase of fund balance.

Analysis of Differences between Original and Final Budgeted Amounts and Between Actual and Budgeted Amounts

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 25, 2007. A schedule showing the District's original and final budget amounts compared with actual amounts is provided in this annual report.

General Fund Budgetary Highlights

With interest rates rising during the fiscal year, all funds experienced higher earnings on investments than projected. Over \$33,000 additional was earned on investments than projected at the beginning of the year in the General Fund.

For the second year in a row, there was reduced participation in the wrap-around child care program offered at the Vista Drive facility for the Head Start program, compared to the prior year. Less revenue was received from both the fees paid by parents and the state support received from the Michigan Department of Human Services.

The District became the fiscal agent on behalf of the Michigan Virtual University for the new state grant for the My Dream Explorer software. The \$500,000 grant, which was paid through the normal state aid payment process, provided the district with additional funds to invest on a temporary basis and allowed for the capture of indirect costs on the grant.

It was determined early in the year to end the long-term practice of having the local constituent school districts reimburse Branch ISD for the cost of the clerical services provided to the cooperative talent development program.

Since Coldwater Community Schools decided not to purchase a new special education bus, for which there was a commitment by Branch ISD to cover the cost of the bus by using the Durant case settlement money, the full amount of the Durant case payment received from the State of Michigan was deferred into a future fiscal year, and no transfer of funds to the Special Education Fund for the ultimate transfer to Coldwater Community Schools was made.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Near year end, an unanticipated credit for federal programs pertaining to contributions to the Michigan Public School Employees Retirement System, provided the Head Start program with enough money along with funds made available by expenses, such as utilities, that were less than expected, to buy a school bus, which was badly needed by the Head Start program.

The air conditioning system for the server room in the Administration Building unexpectedly required replacement.

Special Education Fund Budgetary Highlights

With interest rates rising during the fiscal year, all funds experienced higher earnings on investments than projected. Over \$77,000 additional was earned on investments than projected at the beginning of the year in the Special Education Fund.

The Medicaid fee for service program brought in revenue of nearly \$200,000 above initial projections. The implementation of the new software program allowing the district to process its own billings for Medicaid fee for service is thought to be a major reason for the increased revenue. The revenue from the Medicaid Administrative Outreach program also increased by \$15,285 from the original projection of \$19,927 to \$35,212.

The special education pupil count was 21.14 pupils less than expected, reducing membership state aid by nearly \$150,000. Also, section 53a state aid was \$13,154 less than the original projection due to fewer students in attendance who met the section 53 definition.

Although the cost of the District's partially self-funded health insurance plan did increase, the size of the increase was somewhat less than the increase projected in the original budget. While all funds were impacted by this lesser increase in health insurance costs, the Special Education Fund, which has a very high percentage of its expenditures in salaries and fringe benefits, in particular benefited from partial self-funding of health insurance.

The cost of fingerprinting existing staff electronically to meet the legal requirements for criminal records checks was added to the budget.

There were a few staff positions in the original budget, paraprofessionals and a speech therapist, that were not filled as planned. Also the original budget provided for the replacement of a van and the exterior ramp at the special education offices, but during the year it was decided not to proceed with these purchases.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Vocational Education Fund Budgetary Highlights

With interest rates rising during the fiscal year, all funds experienced higher earnings on investments than projected. Over \$51,000 additional was earned on investments than projected at the beginning of the year in the Vocational Education Fund.

State aid for Section 61.1 for added costs of vocational-technical programs was \$9,909 less than the original budgeted amount. The actual section 61a.2 state aid for vocational-technical administration was \$3,018 less. \$27,124 more section 62 state aid for vocational education millage equalization was received, but most of this increase was due to a last minute change in the prior year's allocation that was not recognized until the 2006-07 fiscal year.

The number of out-of-district pupils attending the Branch Area Careers Center on a tuition basis from school outside of Branch ISD was up slightly, increasing the tuition revenue by \$13,430 above the \$213,520 tuition revenue that was included in the original budget.

The 2007 Agri-Environmental Wilderness Expedition (AEWE) had Alaska as a destination. Although the expedition to Alaska was much more expensive than the prior expeditions, on which the original budget was based, a comparable increase in revenues also occurred in order that participant fees continue the long-term practice of covering all the direct costs of the expedition.

A summer vocational exploration program for at risk youth was run early in the fiscal year, which had not been included in the original budget. However, all costs were reimbursed by the Branch County Juvenile Court.

The cost of fingerprinting existing staff electronically to meet the legal requirements for criminal records checks was added to the budget.

The original budget contained two new academic consultant positions, which were not filled until the end of the fiscal year.

Although the cost of the District's partially self-funded health insurance plan did increase, the size of the increase was somewhat less than the increase projected in the original budget.

The board of education approved a \$715,000 increase in the planned \$115,000 transfer from the Vocational Education Fund to the Vocational Education Capital Projects Fund in order to provide funding for a major renovation project in the low bay portion of the Branch Area Careers Center involving updates to the heating/ventilating/air conditioning system, replacement lighting and ceilings, and switching the locations of the offices and the computer lab.

Food Service Fund Budgetary Highlights

The student participation in the lunch program at Dorothy Legg and Waldron Centers was down slightly compared to the prior year, resulting in less local revenue from lunches sold to students.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Coldwater Community Schools, that on a contract basis provides the lunches served at the Dorothy Legg and Waldron Centers, in 2006-07 chose to request almost no food commodities on behalf of Branch ISD. The budget at the beginning of the year, assumed that food commodities would be requested as they had been two years ago.

No capital outlay was included in the original budget, but during the year it became necessary to replace a hot cart used for the lunch program.

Vocational Education Capital Projects Fund Budgetary Highlights

A mechanical project involving the replacement of the hydronic piping system in the low bay portion of the Branch Area Careers Center, which started in the prior fiscal year, was completed early in 2006-07. Also an area of asphalt parking lot and drive on the east side of the building was replaced. The former sheep barn on the Branch Area Careers Center farm was demolished due to potentially serious structural deficiencies. A significant renovation of the low bay portion of the Branch Area Careers Center including replacement of ceilings and lights, mechanical system updates, and switching the locations of the offices and the computer lab was undertaken late in the fiscal year and was in progress at year end.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the District had over \$11.5 million invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, but before the deduction of accumulated depreciation) of \$345,065, or 3.1 percent, from last year.

Capital Assets at Year-End

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2007</u>
Land and buildings	\$ 7,197,744	\$ 161,013	\$ 4,990	\$ 7,353,767
Furniture and equipment	4,051,764	298,253	257,608	4,092,409
Construction in progress	-	148,397	-	148,397
Total	<u>\$ 11,249,508</u>	<u>\$ 607,663</u>	<u>\$ 262,598</u>	<u>\$ 11,594,573</u>

This year's additions of \$607,663 included among other items, numerous computers (desktops, laptops, and servers), printers, camera, postage machine, exterior signs, shredder, audiology system, electronic whiteboard, poster printer, mobile changing bench, floor scrubber, welders, lathe, laminator, tour wagon, hot cart for food, furnace for Administration Building, fencing on the Branch Area Careers Center farm, electrical breaker for Branch Area Career Center, replacement exterior doors at the Dorothy Legg Learning Center, renovation of a pole barn on Branch Area Career Center farm for raising sheep, air conditioner, hydronic piping replacement at the Branch Area Career Center, and some replacement exterior doors.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The construction in progress is the Branch Area Career Center interior renovation project in the low bay section of the building. No debt was issued for these additions. The retirements of \$262,598 included among other items, a lathe, tympanometer, video projector, plotter, poster printer, floor scrubber, stove, van, laminator, and numerous computers all of which were out-dated and/or ill-suited to provide safe and appropriate services to the District.

For the third year in a row, a renovation project at the Branch Area Careers Center was partially completed at year end. This renovation project, which is larger than the mechanical renovation projects done in the prior two summers, is anticipated to be completed in early 2007-08. This project includes major updates of the HVAC (heating, ventilation, and air conditioning) system along with replacement of ceilings and lighting in most of the low bay portion of the Branch Area Careers Center. Also, the locations of the computer lab and the school offices were switched. A project to update the restrooms and locker rooms in the high bay section of the building, is planned for the summer of 2008 at the Branch Area Careers Center, which will likely span both 2007-2008 and 2008-09. During the summer of 2006 a portion of the machinery storage area in the Agriculture Pole Barn was converted to an area suitable for raising sheep through the Natural Resources and Agriculture Technology program at the Branch Area Careers Center. This allowed in the spring of 2007 for the demolition of the former sheep barn, which had some potentially serious structural deficiencies. Consideration is being given to the construction of a farm machinery storage pole barn for the Natural Resources and Agriculture Technology program during the first half of 2007-08. Although no major asphalt replacement was undertaken in the summer of 2007, it is anticipated that an asphalt replacement project at the Branch Area Careers Center will be undertaken during the summer of 2008. A project during the summer of 2008 is being considered to address observed deterioration in certain areas of the exterior masonry on the Branch Area Careers Center. We present more detailed information about our capital assets in the Notes to the Financial Statements.

Debt

At the end of this year, the District had \$326,093 in bonds outstanding, representing no change from the prior year. These bonds, issued as part of the Durant vs. State of Michigan settlement, were refinanced by the State of Michigan during the 2002-03 year resulting in a revised payment schedule that included no principal or interest payments in 2002-03 through 2004-05. The State of Michigan resumed principal and interest payments in 2005-06, but then the State refinanced for a second time, resulting in another revised payment scheduled that included no principal or interest payment in 2006-07 and 2007-08. The State of Michigan in the State School Aid Act appropriates funds to cover the principal and interest due each year.

Outstanding Debt at Year-End

	June 30,	
	2007	2006
School Improvement Bonds (Durant)	<u>\$326,093</u>	<u>\$326,093</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Other obligations include accrued vacation pay, and also sick, personal and annual leave. We present more detailed information about our long-term liabilities in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets

The taxable value of the District increased by 6.36% for 2007-08. No additional reduction of millage was required by the Headlee Amendment to the Michigan Constitution for 2007-08. In all three funds, the millage that the District can levy has been permanently reduced due to compounding millage reductions required in nine of the last eleven years. The cumulative impact is that the total millage levied by the district is 1.3439 mills less than was authorized originally by the electorate, and hence the revenue from property taxes is less than if the originally authorized millage rate could be levied. With the economic problems and the depressed real estate market in this state, the District is concerned that taxable value of the District may not continue to grow at the rate it did in the current year.

There is no state aid act in place for 2007-08 as the fiscal year begins. Due to the state budget problems, the district has taken a very conservative approach in estimating state aid for 2007-08. For nearly all sections of state aid, no increase in the allocation from the level received in 2006-07 is assumed.

Branch ISD entered into a ten year lease with Coldwater Community Schools to lease the former Franklin High School building, now renamed the Fremont Street Early Childhood Center, initially at the cost of \$1 per year. The District is doing some renovation to the building to make it more suitable for an early childhood center and to update the structure. Head Start and special education will have classes at Fremont Street in 2007-08, and many other early education staff will be relocated to this facility. This will be the first of several changes in building usage during the 2007-08 year, which will eventually reduce the District's reliance on facilities leased from private entities, and therefore free up money presently spent on facility leases for providing educational services.

The wrap-around child care program which has experienced declining use by Head Start families over the prior two years is being eliminated for 2007-08, since the demand for the program no longer justifies its continuation and in order that the program will not be a financial drain on the District's budget.

Funding for the Early Childhood Family Success program has been reduced since the support provided to the program by the Branch County United Way was reduced from \$20,000 to \$12,000 this year.

Increasing student numbers has required the addition of staff positions in special education, including a speech therapist, psychologist, and several teachers. In vocational education, due to the need for the program to be able to grant academic credit under the requirements of the Michigan Merit Curriculum, the two long-anticipated academic advisor positions were filled.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Because the District was required to bear some huge increases in the cost of health insurance provided to its staff, such as the July 1, 2003 increase of nearly 40% in the cost of family health insurance, the District changed to a partially self-funded method of financing health insurance effective July 1, 2004. Also, effective on July 1, 2004, the board pays for single membership health insurance for new non-certified employees, requiring them to pay the additional cost of coverage for spouse and/or family if needed. The health insurance deductible was increased on January 1, 2005, and a second increase took place on January 1, 2006. With three years of experience under the partially self-funded health plan so far, the partial self-funded method of funding health insurance has, as anticipated, slowed the rate of escalation in the cost of health insurance. In 2005-06 the health insurance costs were nearly unchanged compared to the cost of the prior year, and in 2006-07 health insurance costs increased by approximately 8.7% over the prior year. The health insurance budgets were increased by 6% for 2007-08, which is less than medical trend. However, the administration does recognize that there is more risk, and therefore potentially less stability, involved in partial self-funding of health insurance, and three years of reasonably good experience in no way guarantees the continuation of costs increasing only at a modest rate.

Also, effective on October 1, 2007, the rate that all public school districts in Michigan must pay as a percentage of gross employee wages into the Michigan Public School Employees Retirement Fund will decrease from the present 17.74% to 16.72%, which represents a decline in costs of 5.75% after large increases in retirement costs in the prior two fiscal years. The reduction in the retirement rate was made possible by P.A. 15 of 2007 which changed the method of valuing the assets of the system. Projections of the retirement rate for future years however, still anticipate large additional increases in the rate.

In recent years, because of the escalating cost of health insurance and mandated retirement contributions, fringe benefits have been one of highest growth items in the District's budget. The District has moved over a period of several years to contract for certain non-instructional services, as permitted by law, in order to reduce overall costs, in particular costs of fringe benefits. The movement to contracted services has not lessened the District's commitment to maintaining service levels. As current non-instructional staff leave District employment, through retirement or for other reasons, the District will consider the alternative of providing the service through contractors rather than employees. In evaluating this option, consideration will be given to how to best to provide the service cost effectively while maintaining a high quality of service.

The continuing high cost of energy impact costs in several areas in the new fiscal year. The cost of operating the Head Start bus fleet has increased due to the high cost of fuel. Also, the cost of heating the District's buildings, which are mostly heated with natural gas, is much higher than it was a few years ago. The District is experiencing increasing costs in other areas, related to the higher cost of energy.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Through the use of the Vocational Education Capital Projects Fund, it is anticipated that several projects will be undertaken on the vocational education campus including a renovation of the Branch Area Careers Center's restrooms/locker rooms in the high bay portion of the building, replacement of asphalt parking areas, and repairs to the exterior brick of the Branch Area Careers Center.

Contacting the District's Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Michael V. Beckwith, Superintendent, or Gary C. Crandall, Business Manager, at Branch Intermediate District, 370 Morse Street, Coldwater, Michigan 49036, telephone (517) 279-5730.

BRANCH INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalent investments	\$ 8,778,487
Receivables	
Taxes	25,861
Accounts receivable	8,223
Due from other governmental units	1,254,335
Inventory	412,845
Prepaid expenses	513,798
Capital assets less accumulated depreciation of \$6,437,646	<u>5,156,927</u>
 Total assets	 16,150,476
LIABILITIES	
Accounts payable	302,997
Salaries payable	1,179,482
Accrued expenditures	384,747
Deferred revenue	626,966
Due to other governmental units	23,846
Long term liabilities	
Bonds payable, due in more than one year	326,093
Compensated absences	<u>254,260</u>
 Total liabilities	 3,098,391
NET ASSETS	
Investment in capital assets - net of related debt	4,830,834
Restricted	913,062
Unrestricted	<u>7,308,189</u>
 Total net assets	 <u><u>\$ 13,052,085</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating / Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 9,103,620	\$ 376,642	\$ 1,519,922	\$ (7,207,056)
Support services	7,086,529	769,702	1,433,822	(4,883,005)
Community services	1,514,198	9,401	1,562,584	57,787
Depreciation unallocated	183,954	-	-	(183,954)
Total governmental activities	<u>\$ 17,888,301</u>	<u>\$ 1,155,745</u>	<u>\$ 4,516,328</u>	(12,216,228)
General revenues:				
Property taxes, levied for general purposes				8,863,744
State aid not restricted for specific purposes				4,140,549
Interest and investment earnings				331,872
Other				<u>28,789</u>
Total general revenues				<u>13,364,954</u>
Change in Net Assets				1,148,726
Net Assets - Beginning				<u>11,903,359</u>
Net Assets - Ending				<u><u>\$ 13,052,085</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	General Fund	Vocational Education Fund	Special Education Fund	Vocational Education Capital Projects Fund
ASSETS				
Cash and cash equivalent investments	\$ 1,280,683	\$ 2,774,600	\$ 3,757,430	\$ 965,774
Taxes receivable	543	13,268	12,050	-
Accounts receivable	168	7,237	818	-
Due from other governmental units	295,097	148,018	809,229	-
Due from other funds	3,700	1,623	3,260	-
Inventory	-	412,845	-	-
Prepaid expenses	114,605	261,937	137,256	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,694,796</u>	<u>\$ 3,619,528</u>	<u>\$ 4,720,043</u>	<u>\$ 965,774</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 160,571	\$ 60,108	\$ 29,405	\$ 52,712
Salaries payable	22,615	304,262	852,485	-
Accrued expenditures	13,247	98,267	273,203	-
Deferred revenue	618,034	8,932	-	-
Due to other governmental units	-	-	23,846	-
Due to other funds	2,301	31	4,611	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	816,768	471,600	1,183,550	52,712
FUND BALANCE				
Designated	-	-	-	913,062
Undesignated	878,028	3,147,928	3,536,493	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	878,028	3,147,928	3,536,493	913,062
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 1,694,796</u>	<u>\$ 3,619,528</u>	<u>\$ 4,720,043</u>	<u>\$ 965,774</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds		
Food Service	Totals	
\$ -	\$ 8,778,487	
-	25,861	
-	8,223	
1,991	1,254,335	
-	8,583	
-	412,845	
-	513,798	
<u>\$ 1,991</u>	<u>\$ 11,002,132</u>	

\$ 201	\$ 302,997	
120	1,179,482	
30	384,747	
-	626,966	
-	23,846	
<u>1,640</u>	<u>8,583</u>	
1,991	2,526,621	
-	913,062	
-	7,562,449	
<u>-</u>	<u>8,475,511</u>	
<u>\$ 1,991</u>	<u>\$ 11,002,132</u>	

BRANCH INTERMEDIATE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2007

Total Fund Balance - Governmental Funds	\$ 8,475,511
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
The cost of the capital assets	11,594,573
Accumulated depreciation	<u>(6,437,646)</u>
Total capital assets not reported in the funds	5,156,927
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(326,093)
Compensated absences	<u>(254,260)</u>
Total long-term liabilities not reported in the funds	<u>(580,353)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 13,052,085</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Vocational Education Fund	Special Education Fund	Vocational Education Capital Project Fund
REVENUES				
Local sources	\$ 287,032	\$ 4,735,043	\$ 4,944,078	\$ 25,097
State sources	1,202,274	764,636	3,153,836	-
Federal sources	1,784,275	115,537	1,656,571	-
Other school districts	67,210	258,495	27,869	-
Total revenues	3,340,791	5,873,711	9,782,354	25,097
EXPENDITURES				
Instruction	264,007	2,759,272	5,931,988	-
Support services	1,572,368	2,158,881	3,166,704	-
Community services	1,492,467	-	18,369	-
Capital outlay	97,979	170,718	94,680	256,326
Total expenditures	3,426,821	5,088,871	9,211,741	256,326
Excess (deficiency) of revenues over expenditures	(86,030)	784,840	570,613	(231,229)
OTHER SOURCES (USES)				
Transfers from (to) other funds	149,730	(902,789)	(83,794)	830,000
Sale of fixed assets	-	3,721	1,421	-
Total other sources (uses)	149,730	(899,068)	(82,373)	830,000
Excess (deficiency) of revenues and other sources over expenditures and other uses	63,700	(114,228)	488,240	598,771
FUND BALANCE - BEGINNING	814,328	3,262,156	3,048,253	314,291
FUND BALANCE - ENDING	<u>\$ 878,028</u>	<u>\$ 3,147,928</u>	<u>\$ 3,536,493</u>	<u>\$ 913,062</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds		
Food Service		Totals
\$ 1,644	\$ 9,992,894	
238	5,120,984	
11,497	3,567,880	
-	353,574	
13,379	19,035,332	
-	8,955,267	
18,174	6,916,127	
-	1,510,836	
2,058	621,761	
20,232	18,003,991	
(6,853)	1,031,341	
6,853	-	
-	5,142	
6,853	5,142	
-	1,036,483	
-	7,439,028	
\$ -	\$ 8,475,511	

BRANCH INTERMEDIATE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Net change in Fund Balance - Total Governmental Funds	\$ 1,036,483
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(487,606)
Capital outlay	621,761
Non-depreciable capital outlay	(14,098)
Net book value of disposed assets	<u>(3,447)</u>
Total	116,610
Increases in compensated absences are reported as expenditures when financial resources are used in governmental funds in accordance with GASB Interpretation No. 6	<u>(4,367)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,148,726</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	<u>Student Activities Agency Fund</u>
ASSETS	
Cash and cash equivalent investments	<u>\$ 45,911</u>
LIABILITIES	
Due to student groups	<u>\$ 45,911</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Intermediate School District conform to generally accepted accounting principles in the United States of America as applicable to school districts. The following is a summary of significant policies:

REPORTING ENTITY:

The Board of Education, a five member group, has responsibility for activities relating to vocational and special education within their jurisdiction including, Bronson, Coldwater and Quincy school districts. The Board receives funding from local, state and federal sources and must comply with the requirements of these funding sources. The Board is not a component unit of any other government reporting entity. The Board is elected by the local school districts of Bronson, Coldwater and Quincy and has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

There were no other governmental entities considered for inclusion with the District as a component unit.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS:

The district-wide financial statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree of which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

District-wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION:

MAJOR GOVERNMENTAL FUNDS

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Vocational Education Fund is used to account for financial resources to be used specifically for providing vocational education services to students within the District.

Special Education Fund is used to account for financial resources to be used specifically for providing special education services to students within the District.

Vocational Education Capital Project Fund is used to account for resources specifically designated for the acquisition and constructions of facilities and for major capital repairs and improvements of facilities.

FIDUCIARY FUNDS

Fiduciary Funds is used to account for assets held by the district in a trustee or agency capacity. Agency funds are custodian in nature, assets equal liabilities, and do not involve measurement of results of operations.

Additionally, the District reports the following nonmajor governmental fund types:

Special Revenue Funds are used to account for the proceeds of specific sources that are restricted to expenditures for specified purposes. The District's nonmajor Special Revenue Fund is the Food Service Fund.

Durant Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and other related costs. There was no activity in this fund for the year ended June 30, 2007. Payments for the Durant Debt Service Fund are totally funded by the State of Michigan

ASSETS, LIABILITIES AND NET ASSETS:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES AND NET ASSETS – Continued:

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

A policy of writing off uncollected personal property taxes after one year has been adopted.

Inventory and Prepaid items – Inventory is valued at cost, on a first-in, first-out basis. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The district defines capital assets as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The District does not have infrastructure-type assets.

Buildings, equipment, computers and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-45 Years
Buses and other vehicles	7 Years
Furniture and other equipment	4-10 Years
Computers	3 Years

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES AND NET ASSETS – Continued:

Fund Balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

BASIS OF BUDGETING:

The District adopted their annual budgets based on the modified accrual method of accounting. Revenues and expenditures were estimated by the individual line item basis, but adopted and amended by the Board of Education by the functional level for each fund. Once a budget is approved, it can be amended at the functional level. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are reflected in the official minutes of the Board, and are not made after year end as dictated by State law. Revisions to the budgets were made during the year.

ENCUMBRANCE ACCOUNTING:

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2007

NOTE B – DEPOSITS AND INVESTMENTS

The District uses financial institutions for cash purposes, which are in accordance with statutory authority. The accounts maintained in the financial institutions are checking, savings and certificates of deposit. The interest rates of the checking and savings accounts are at variable daily rates.

For investment purposes, the District uses a pooled investment account. The pooled investment account is not evidenced by securities that exist in physical book entry form. All investments are in accordance with the Michigan School Code.

The District's cash and investments at June 30, 2007 are as follows:

	Governmental Activities	Fiduciary Funds	Total Government
Cash and investments	<u>\$ 8,778,487</u>	<u>\$ 45,911</u>	<u>\$ 8,824,398</u>

The District has the following investments:

Investments	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating
Michigan Liquid Asset Fund (MICMS)	\$ 25,646	0.0027	AAA m
Michigan Liquid Asset Fund (MIMAX)	<u>69,873</u>	<u>0.0027</u>	AAA m
Total Fair Value	<u>\$ 95,519</u>		
Portfolio weighted average maturity		<u>0.0027</u>	

1 day maturity equals 0.0027, one year equals 1.00

Interest rate risk – In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2007

NOTE B – DEPOSITS AND INVESTMENTS – Continued

Credit risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The District does not allow direct investment in commercial paper or corporate bonds.

Concentration of credit risk – The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk deposits – In the case of deposits, this is the risk that in the event of an institutional failure, the District's deposits may not be recovered. As of June 30, 2007, \$8,624,153 of the District's \$8,924,153 of cash and investments was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

Foreign currency risk – The District is not authorized to invest in investments which have this type of risk.

NOTE C – TAXES RECEIVABLE

The District's property taxes are levied each December 1, at which time they are recognized as revenue. Taxes are collected by the local governmental units within Branch, St. Joseph and Hillsdale Counties and are either remitted to the County or directly to the District. After February 28 of each year, all uncollected taxes are returned delinquent to the respective county.

The 2006 taxable valuation of the District was \$1,062,220,780.

The 2006 operating tax rates were as follows

General Fund	0.1716
Vocational Education Fund	4.2105
Special Education Fund	<u>3.8240</u>
Total tax rate	<u><u>8.2061</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2007

NOTE C – TAXES RECEIVABLE – Continued

Taxes receivable represent uncollected personal property taxes as follows:

General Fund	\$ 543
Vocational Education Fund	13,268
Special Education Fund	<u>12,050</u>
Total taxes receivable	<u><u>\$ 25,861</u></u>

As discussed in note A, the District has adopted the policy of writing off uncollected personal property taxes after one year. No provision for uncollectible personal property taxes has been made in these financial statements.

NOTE D – DUE FROM (TO) OTHER FUNDS

The due from (to) other funds, at June 30, 2007, for the District are as follows:

GENERAL FUND

Due from Special Education Fund	\$ 3,669
Due from Vocational Education Fund	<u>31</u>
Total General Fund	3,700

VOCATIONAL EDUCATION FUND

Due from General Fund	681
Due from Special Education Fund	<u>942</u>
Total Vocational Education Fund	1,623

SPECIAL EDUCATION FUND

Due from General Fund	1,620
Due from Food Service Fund	<u>1,640</u>
Total Special Education Fund	<u>3,260</u>
Total due from other funds	<u><u>\$ 8,583</u></u>

All balances resulted from time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2007

NOTE E – TRANSFERS FROM (TO) OTHER FUNDS

The transfers from (to) other funds, for the year ended June 30, 2007, for the District are as follows:

GENERAL FUND

Transfer from Special Education Fund	\$ 65,085
Transfer from Vocational Education Fund	<u>84,645</u>
Total General Fund	<u><u>\$ 149,730</u></u>

VOCATIONAL EDUCATION FUND

Transfer to General Fund	\$ (84,645)
Transfer to Vocational Education Capital Projects Fund	(830,000)
Transfer from Special Education Fund	<u>11,856</u>
Total Vocational Education Fund	<u><u>\$ (902,789)</u></u>

SPECIAL EDUCATION FUND

Transfer to General Fund	\$ (65,085)
Transfer to Vocational Education Fund	(11,856)
Transfer to Food Service Fund	<u>(6,853)</u>
Total Special Education Fund	<u><u>\$ (83,794)</u></u>

VOCATIONAL EDUCATION CAPITAL PROJECT FUND

Transfer from Vocational Education Fund	<u><u>\$ 830,000</u></u>
---	--------------------------

OTHER NONMAJOR FUNDS FOOD SERVICE

Transfer from Special Education Fund	<u><u>\$ 6,853</u></u>
--------------------------------------	------------------------

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

BRANCH INTERMEDIATE SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2007****NOTE F – CAPITAL ASSETS**

Capital asset activity of the District's governmental activities was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
GROUP:				
Buildings and land	\$ 7,197,744	\$ 161,013	\$ 4,990	\$ 7,353,767
Equipment	2,007,222	100,344	37,233	2,070,333
Computers	987,338	131,685	206,089	912,934
Vehicles	1,057,204	66,224	14,286	1,109,142
Construction in progress	-	148,397	-	148,397
Subtotal	11,249,508	607,663	262,598	11,594,573
ACCUMULATED DEPRECIATION:				
Buildings	3,171,362	166,507	3,451	3,334,418
Equipment	1,520,022	132,417	36,754	1,615,685
Computers	838,214	125,012	206,089	757,137
Vehicles	679,593	63,670	12,857	730,406
Total accumulated depreciation	6,209,191	487,606	259,151	6,437,646
Net Capital Assets	<u>\$ 5,040,317</u>	<u>\$ 120,057</u>	<u>\$ 3,447</u>	<u>\$ 5,156,927</u>

Depreciation expense was charged to activities of the District as follows:

GOVERNMENTAL ACTIVITIES:	
Instruction	\$ 154,731
Support services	148,921
Unallocated	<u>183,954</u>
Total governmental activities	<u>\$ 487,606</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2007****NOTE G – DEFERRED REVENUE**

Deferred revenue represents unexpended funds as follows:

	General	Vocational Education	Total
Advanced and accelerated pupils	\$ 4,357	\$ -	\$ 4,357
Michigan school readiness	45,979	-	45,979
Technical training	7,221	-	7,221
Head start	25,496	-	25,496
Great parents / Great start	63,884	-	63,884
Durant	253,479	-	253,479
Circle of care	859	-	859
My dream explorer	210,017	-	210,017
Agri-environmental wilderness expedition	-	8,432	8,432
Miscellaneous	6,742	500	7,242
Total	<u>\$ 618,034</u>	<u>\$ 8,932</u>	<u>\$ 626,966</u>

NOTE H – LONG-TERM DEBT

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
Governmental Activities:				
Bonds	\$ 326,093	\$ -	\$ -	\$ 326,093
Compensated Absences	249,893	4,367	-	254,260
Total governmental activities	<u>\$ 575,986</u>	<u>\$ 4,367</u>	<u>\$ -</u>	<u>\$ 580,353</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2007

NOTE H – LONG-TERM DEBT – Continued

General obligation bonds consist of the following:

1998 school improvement bond payment due in annual installments of
\$44,279 to \$135,930 through May 15, 2013; interest at 4.76% \$ 326,093

Annual debt service requirements to maturity for the above governmental bond obligation are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ -	\$ -
2009	44,279	11,594	55,873
2010	46,385	9,485	55,870
2011	48,595	7,277	55,872
2012	50,905	4,963	55,868
2013	<u>135,929</u>	<u>31,671</u>	<u>167,600</u>
Total	<u><u>\$ 326,093</u></u>	<u><u>\$ 64,990</u></u>	<u><u>\$ 391,083</u></u>

NOTE I – SELF FUNDED INSURANCE POOL

The District participates in a entity risk pool for health insurance. The pool is through Blue Cross-Blue Shield of Michigan. This pool provides for insurance coverage based on the group of employees enrolled at the Branch Intermediate School District. Should the pool experience significant losses in the aggregate, the District may be required to pay additional monies to the pool. The premiums are evaluated every three months and new premium amounts set on historical data of claims filed. At present Blue Cross – Blue Shield of Michigan has not required large additional funds. Premiums for the year ended June 30, 2007 were \$1,770,880 and the District is not aware of any significant amounts of claims payable at year end.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2007

NOTE J – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts, errors and omissions, injuries to employee's and natural disasters. The District participates in two distinct pools of education institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subjected to special assessment to make up the deficiency. Each of the pools maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. The District continues to carry commercial insurance for other risk.

NOTE K – RETIREMENT PROGRAM

Plan Description – The District contributes to the statewide Michigan Public School Employee's Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2007

NOTE K – RETIREMENT PROGRAM - Continued

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007 were 16.34% of payroll for the first quarter and 17.74% through the remainder of the fiscal year. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were \$1,650,655, \$1,549,670, and \$1,392,937, respectively, equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Post employment Benefits – Under MPSERS' Act all retirees have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred above.

NOTE L – ADMINISTRATIVE FRINGE BENEFITS

The District allows administrative employees the option to receive tax sheltered annuity or a split-dollar life insurance policy.

TAX SHELTERED ANNUITY:

The district has a tax sheltered annuity program qualified under Section 403(b) of the Internal Revenue Code. The District makes employer contributions for eligible administrative employees.

SPLIT-DOLLAR LIFE INSURANCE:

Under the split-dollar life insurance program, the District pays the premiums and receives upon termination of the policy or the death of the insured, the total premiums paid on the policy and the insured designates a beneficiary to receive the balance of the benefits.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2007

NOTE M – DONATED SERVICES AND MATERIALS

The District participates in numerous Federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Various programs require the District to provide a local match through in-kind donated services or materials. These donated services and materials lack objective measurable basis for determining fair value, and accordingly, are not reflected as revenues and expenditures in these financial statements.

NOTE N – COMMITMENTS

The District has entered into contracts with various firms for the construction and renovation of the Branch Area Career Center. As of June 30, 2007, costs to complete the construction renovation are estimated at approximately \$800,000.

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		
	Original	Final	Actual
REVENUES			
Local sources	\$ 263,970	\$ 292,697	\$ 287,032
State sources	1,011,745	1,521,975	1,202,274
Federal sources	1,707,458	1,823,303	1,784,275
Other school districts	124,438	71,794	67,210
 Total revenues	 3,107,611	 3,709,769	 3,340,791
EXPENDITURES			
Instruction	292,564	303,826	264,007
Support services	1,262,953	1,896,291	1,572,368
Community services	1,579,035	1,495,485	1,492,467
Capital outlay	20,600	97,980	97,979
Other school districts	21,687	-	-
 Total expenditures	 3,176,839	 3,793,582	 3,426,821
 Excess (deficiency) of revenues over expenditures	 (69,228)	 (83,813)	 (86,030)
OTHER SOURCES			
Transfers from other funds	78,281	149,730	149,730
Sale of fixed assets	500	-	-
 Total other sources	 78,781	 149,730	 149,730
 Excess of revenues and other sources over expenditures	 9,553	 65,917	 63,700
FUND BALANCE - BEGINNING	792,684	814,328	814,328
FUND BALANCE - ENDING	\$ 802,237	\$ 880,245	\$ 878,028

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
VOCATIONAL EDUCATION FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		
	Original	Final	Actual
REVENUES			
Local sources	\$ 4,617,036	\$ 4,740,105	\$ 4,735,043
State sources	749,739	764,613	764,636
Federal sources	109,396	115,537	115,537
Other school districts	240,308	258,495	258,495
 Total revenues	 5,716,479	 5,878,750	 5,873,711
EXPENDITURES			
Instruction	2,929,296	2,787,906	2,759,272
Support services	2,401,299	2,199,482	2,158,881
Capital outlay	210,912	174,896	170,718
 Total expenditures	 5,541,507	 5,162,284	 5,088,871
 Excess of revenues over expenditures	 174,972	 716,466	 784,840
OTHER SOURCES (USES)			
Transfers from (to) other funds	(185,176)	(902,789)	(902,789)
Sale of fixed assets	3,000	3,720	3,721
 Total other sources (uses)	 (182,176)	 (899,069)	 (899,068)
 Excess (deficiency) of revenues and other sources over expenditures and other uses	 (7,204)	 (182,603)	 (114,228)
 FUND BALANCE - BEGINNING	 3,138,244	 3,262,156	 3,262,156
 FUND BALANCE - ENDING	 \$ 3,131,040	 \$ 3,079,553	 \$ 3,147,928

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SPECIAL EDUCATION FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		
	Original	Final	Actual
REVENUES			
Local sources	\$ 4,681,270	\$ 4,857,548	\$ 4,944,078
State sources	3,316,410	3,167,030	3,153,836
Federal sources	1,741,433	1,794,701	1,656,571
Other school districts	12,000	27,868	27,869
Total revenues	9,751,113	9,847,147	9,782,354
EXPENDITURES			
Instruction	6,434,516	6,046,830	5,931,988
Support services	3,283,703	3,249,402	3,166,704
Community services	16,171	20,500	18,369
Capital outlay	128,664	94,995	94,680
Other school districts	75,000	-	-
Total expenditures	9,938,054	9,411,727	9,211,741
Excess (deficiency) of revenues over expenditures	(186,941)	435,420	570,613
OTHER SOURCES (USES)			
Transfers from (to) other funds	(14,910)	(83,794)	(83,794)
Sale of fixed assets	1,000	1,421	1,421
Total other sources (uses)	(13,910)	(82,373)	(82,373)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(200,851)	353,047	488,240
FUND BALANCE - BEGINNING	2,873,716	3,048,253	3,048,253
FUND BALANCE - ENDING	<u>\$ 2,672,865</u>	<u>\$ 3,401,300</u>	<u>\$ 3,536,493</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
VOCATIONAL EDUCATION CAPITAL PROJECT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Local sources	\$ 10,000	\$ 20,000	\$ 25,097
EXPENDITURES			
Capital outlay	<u>300,000</u>	<u>514,098</u>	<u>256,326</u>
Excess (deficiency) of revenues over expenditures	(290,000)	(494,098)	(231,229)
OTHER SOURCES			
Transfers from other funds	<u>115,000</u>	<u>830,000</u>	<u>830,000</u>
Excess (deficiency) of revenues and other sources over expenditures	(175,000)	335,902	598,771
FUND BALANCE - BEGINNING	<u>254,785</u>	<u>314,291</u>	<u>314,291</u>
FUND BALANCE - ENDING	<u>\$ 79,785</u>	<u>\$ 650,193</u>	<u>\$ 913,062</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT

**INTERNAL CONTROL AND
FEDERAL GRANT REPORTS**

JUNE 30, 2007

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Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

August 28, 2007

We have audited the financial statements, the governmental activities, each major fund and the aggregate remaining fund information of Branch Intermediate School District as of and for the year ended June 30, 2007, which collectively comprise Branch Intermediate School District's basic financial statements and have issued our report thereon dated August 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by Comptroller General of the United States.

Internal Control Over Financial Reporting: In planning and performing our audit, we considered Branch Intermediate School District's internal control over financial reporting as a basis for designing our auditing procedures for purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Branch Intermediate School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Branch Intermediate School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Branch Intermediate School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Branch Intermediate School District's financial statements that is more than inconsequential will not be prevented or detected by the Branch Intermediate School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Branch Intermediate School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether Branch Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Governmental Auditing Standards.

This report is intended solely for the information and use of the management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Rumsey & Watkins P.C." in a cursive, stylized font.

RUMSEY & WATKINS, P.C.

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

August 28, 2007

Compliance: We have audited the compliance of Branch Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Branch Intermediate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Branch Intermediate School District's management. Our responsibility is to express an opinion on Branch Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Branch Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination on Branch Intermediate School District's compliance with those requirements.

In our opinion, Branch Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance: The management of Branch Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Branch Intermediate School District's internal control over compliance with requirements that could have a direct material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of Branch Intermediate School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of expenditures of Federal awards: We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Branch Intermediate School District as of and for the year ended June 30, 2007, and have issued our report thereon dated August 28, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Board of Education
Branch Intermediate School District**

August 28, 2007

This report is intended for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Rumsey & Watkins PC".

RUMSEY & WATKINS, P.C.

BRANCH INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2007

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Program or Award Amount</u>
DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
Title V	84.298	070250 0607	\$ 388
* P.L. 94-142	84.027	050450 0405	1,310,157
* P.L. 94-142	84.027	060450 0506	1,352,079
* P.L. 94-142	84.027	060480 EOSD	50,000
* P.L. 94-142	84.027	060490 TS	50,074
* P.L. 94-142	84.027	070450 0607	1,358,369
* P.L. 94-142	84.027	070480 EOSD	50,000
* P.L. 94-142	84.027	070490 TS	60,000
Total P.L. 94-142			<u>4,230,679</u>
* P.L. 94-142	84.173	060460 0506	43,469
* P.L. 94-142	84.173	070460 0607	<u>42,622</u>
Total P.L. 94-142			86,091
Homeless Children and Youths	84.196	062320 0506	20,750
Homeless Children and Youths	84.196	072320 0607	<u>23,261</u>
Total Homeless Children and Youths			44,011

* Designates major program

<u>Accrued or (Deferred) Revenue at July 1, 2006</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2007</u>	<u>Prior Years Expenditures</u>
\$ -	\$ 388	\$ 388	\$ -	\$ -
34,991	34,991	-	-	1,310,157
137,925	260,535	160,771	38,161	1,191,308
2,728	2,728	-	-	50,000
12,972	12,972	-	-	50,074
-	1,011,922	1,150,733	138,811	-
-	47,846	50,000	2,154	-
-	39,427	49,468	10,041	-
<u>188,616</u>	<u>1,410,421</u>	<u>1,410,972</u>	<u>189,167</u>	
1,834	7,692	5,858	-	37,611
-	36,199	37,814	1,615	-
<u>1,834</u>	<u>43,891</u>	<u>43,672</u>	<u>1,615</u>	
3,757	8,755	4,998	-	15,752
-	14,883	16,887	2,004	-
<u>3,757</u>	<u>23,638</u>	<u>21,885</u>	<u>2,004</u>	

BRANCH INTERMEDIATE SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2007**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF EDUCATION - Continued			
Passed Through State Department of Education - Continued			
Handicapped Infants and Toddlers	84.181	061340 190	106,184
Handicapped Infants and Toddlers	84.181	071340 190	<u>104,421</u>
Total Handicapped Infants and Toddlers			210,605
Even Start	84.213	060390 D0618CES	225,000
Title II Part A	84.367	070520 0607	<u>1,083</u>
Total Passed Through State Department of Education			4,797,857
Passed Through Calhoun Intermediate School District:			
Carl Perkins Act	84.048	-	106,285
Technical Preparation Consortium	84.243	-	<u>2,000</u>
Total Passed Through Calhoun Intermediate School District			<u>108,285</u>
Total Department of Education			4,906,142

* Designates major program

<u>Accrued or (Deferred) Revenue at July 1, 2006</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2007</u>	<u>Prior Years Expenditures</u>
9,027	36,372	27,345	-	78,839
-	81,320	85,497	4,177	-
9,027	117,692	112,842	4,177	
43,942	49,898	5,956	-	219,044
-	1,083	1,083	-	-
247,176	1,647,011	1,596,798	196,963	
-	81,535	106,285	24,750	-
-	2,000	2,000	-	-
-	83,535	108,285	24,750	
247,176	1,730,546	1,705,083	221,713	

BRANCH INTERMEDIATE SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2007**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
National School Lunch Program 2005-2006	10.555	-	12,377
National School Lunch Program 2006-2007	10.555	-	11,489
Total National School Lunch Program			23,866
Child Care Food Program 2006-2007	10.588	-	131,696
Total Department of Agriculture			155,562
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
* Head Start	93.600	05CH420940	1,557,610
* Head Start	93.600	05CH420941	1,540,274
Total Head Start			3,097,884
Passed Through Department of Human Services			
Strong Families/Safe Children	93.556	-	10,681
Strong Families/Safe Children	93.556	-	13,190
Strong Families/Safe Children	93.556	-	31,591
Strong Families/Safe Children	93.556	-	14,580
Total passed through Family Independence Agency			70,042

* Designates major program

<u>Accrued or (Deferred) Revenue at July 1, 2006</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2007</u>	<u>Prior Years Expenditures</u>
96	96	-	-	12,377
-	9,498	11,489	1,991	-
<u>96</u>	<u>9,594</u>	<u>11,489</u>	<u>1,991</u>	
-	131,696	131,696	-	-
<u>96</u>	<u>141,290</u>	<u>143,185</u>	<u>1,991</u>	
72,601	72,601	-	-	1,557,610
-	1,445,510	1,540,274	94,764	-
<u>72,601</u>	<u>1,518,111</u>	<u>1,540,274</u>	<u>94,764</u>	
1,281	6,250	4,969	-	5,712
5,330	13,190	7,860	-	5,330
-	19,821	25,729	5,908	-
<u>-</u>	<u>8,950</u>	<u>13,125</u>	<u>4,175</u>	<u>-</u>
6,611	48,211	51,683	10,083	

BRANCH INTERMEDIATE SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2007**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF HEALTH AND HUMAN SERVICES - Continued			
Passed Through Calhoun Intermediate School District:			
Drug Free Schools	84.186	-	690
Passed Through State Department of Community Health:			
Early Childhood Investment Corporation	93.575	-	115,791
Medical Assistance Program	93.778	-	35,212
Medical Assistance Program	93.778	-	31,091
Total Medical Assistance Program			<u>66,303</u>
Total passed through State Department of Community Health			<u>182,094</u>
Total Department of Health and Human Services			3,350,710

<u>Accrued or (Deferred) Revenue at July 1, 2006</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2007</u>	<u>Prior Years Expenditures</u>
-	552	552	-	-
(4,204)	16,967	48,852	27,681	4,129
-	35,212	35,212	-	-
-	29,992	31,091	1,099	-
<u>-</u>	<u>65,204</u>	<u>66,303</u>	<u>1,099</u>	
<u>(4,204)</u>	<u>82,171</u>	<u>115,155</u>	<u>28,780</u>	
75,008	1,649,045	1,707,664	133,627	

BRANCH INTERMEDIATE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2007**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF LABOR			
Passed Through Calhoun Intermediate School District:			
Workforce Investment Act	17.255	-	106,554
Passed Through Michigan Rehabilitation Services:			
Rehabilitation Services	84.128	-	<u>19,188</u>
Total Department of Labor			125,742
OTHER FEDERAL ASSISTANCE			
Bronson/Coldwater Housing Commission	14.239	-	<u>10,381</u>
Total Federal Financial Assistance			<u><u>\$ 8,548,537</u></u>

<u>Accrued or (Deferred) Revenue at July 1, 2006</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2007</u>	<u>Prior Years Expenditures</u>
20,496	27,748	7,252	-	99,302
-	4,688	4,688	-	14,500
20,496	32,436	11,940	-	
-	10,381	10,381	-	-
<u>\$ 342,776</u>	<u>\$ 3,563,698</u>	<u>\$ 3,578,253</u>	<u>\$ 357,331</u>	

BRANCH INTERMEDIATE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2007**

**Reconciliation of Total Federal Assistance
to Financial Statements:**

Total Federal Assistance received	\$ 3,563,698
Accrued revenue at July 1, 2006	(342,776)
Accrued revenue at June 30, 2007	<u>357,331</u>
Total Federal Assistance expenditures	3,578,253
Prior years accrued revenue written off during current year	8
Payment in lieu of taxes shown in general purpose financial statements as local source	<u>(10,381)</u>
Total Federal Sources per financial statements	<u><u>\$ 3,567,880</u></u>

ADDITIONAL COMMENTS

For the grants tested in accordance with the Single Audit Act, the expenditures identified in the schedule of expenditures of Federal awards are supported by source documentation, accurate, current, proper and in agreement with financial reports submitted to the Michigan Department of Education.

Per review of the June 30, 2006 schedule of findings and questioned costs, no items were noted in the prior years.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO INTERNAL CONTROL AND FEDERAL GRANT REPORT
FOR THE YEAR ENDED JUNE 30, 2007

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Intermediate School District conform to generally accepted accounting principles in the United States of America as applicable to school districts. Please refer to Note A of the financial statements for a summary of significant policies.

NOTE B – GRANT SECTION AUDITORS REPORT

Management has utilized the Grant Section Auditors Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

BRANCH INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are considered
to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered
to be material weakness(es)? Yes X No

Type of auditors' report issued on compliance for major
programs: Unqualified

Any audit findings disclosed that are required to be reported
with Section 510(a) of Circular A-133? Yes X No

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start
84.027 and 84.173	P.L. 94-142

Dollar threshold used to distinguish between type A and type
B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

FINDINGS - FINANCIAL STATEMENT AUDIT

None

MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None